ANNUAL

PRESIDENTIAL REVIEW

FOR USE BY

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AT THE 119TH

ANNUAL GENERAL MEETING

OF

THE CHAMBER OF MINES OF SOUTH AFRICA

ON

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AT

COUNTRY CLUB JOHANNESBURG

1. ORDER OF PROTOCOL

The honourable Minister of Mineral Resources, Ms Susan Shabangu; representatives of Government; former Presidents of the Chamber of Mines; principal members of the National Union of Mineworkers and other industry employee organisations; representatives of Chamber member companies; distinguished guests; members of the media; ladies and gentlemen.

2. THE GLOBAL FINANCIAL CRISIS

While we are seeing some comforting indications that the worst of it is behind us, the global financial crisis which had its origins in the sub-prime mortgage debacle in the United States, has delivered a punishing blow this year to the South African economy and our country's mining sector.

Not since the Great Depression in the second and third decades of the previous century has the world witnessed an economic meltdown of such momentous proportions. The sophisticated levels of connectivity that link the economies of members of the international community of nations have ensured that there has been no escape from the financial carnage that moved so rapidly and with such damaging impact across the global stage.

Like virtually all others, South Africa's economy is inseparably bound to the global economy and although low levels of external debt, a flexible exchange rate and sound fiscal and monetary policies afforded it some protection in the initial phases of the crisis, it was inevitable that it would ultimately be affected.

The first repercussions surfaced in the final quarter of last year when our economy recorded negative growth with an almost two percent decline in Gross Domestic Product. After a more than six percent GDP shrinkage in the first quarter of 2009, it was officially acknowledged that South Africa was in a state of recession.

The consequences for the mining industry have been acute.

Already in a state of decline before the advent of the international financial crisis – reflected in a 1.6 percent drop in output in 2006; 0.8 percent in 2007; and seven percent in 2008 - there has been a more than nine percent decline in output in the first six months of this year.

Accompanying the falls in production, there has been a drop in 2009 in the prices of most of the commodities that the mining sector traditionally sells in the international marketplace. So too with demand in the advanced economies which have all been in recession. Nowhere is this better illustrated than in the fact that vehicle sales in the United States in the first quarter of this year were down by more than 30 per cent which had a massive negative impact on the demand for platinum group metals. PGMs are essential to the manufacture of catalytic converters which reduce the harmful effects of motor vehicle exhaust emissions.

The definitive and precise consequences of the global financial fiasco will only become clear when figures reflecting industry sales and performance in 2009 are made available.

It is safe to predict, I believe, that they will be unremarkable.

While the observation I have just made – combined with the unfavourable climate in which the mining sector has been compelled to operate – is a foregone conclusion, it is critical to add that the industry has not simply withdrawn and made no attempt to influence events. In collaboration with its major stakeholders, Government and organised labour, it established the Mining Industry Growth Development and Employment Task Team. More commonly known as MIGDETT, the tripartite team has been given two important operational mandates.

Firstly, it is charged with the development of strategies to manage the short term effects of the economic crisis. In this context its work embraces initiatives aimed at helping mining companies to remain in business by reducing costs and dealing effectively with identified operational constraints. Furthermore, active attention is devoted to the adoption of measures intended to avoid retrenchments.

The second component of MIGDETT's functional responsibility is to find the way for the mining industry to be able to respond positively to the next inevitable commodity up-cycle. Here, the concentration is on infrastructure improvement, skills development and the adoption of a culture that will eliminate the restrictive impediments of "red tape" and move rapidly into a regulatory structure that makes consistent use of the far more enabling facility of so-called "smart tape".

The work of MIGDETT continues amid signs, as I mentioned earlier, that the very worst depredations of the recession are over. Stability seems to have returned to financial markets, international stock exchanges are showing signs of recovery and major banking institutions are slowly returning to profitability. To the mining industry's advantage it is likely that there will soon be significant recovery in the advanced economies as well as the BRIC economies (those of Brazil, Russia, India and China) where ongoing urbanisation and industrialisation will expand the demand for minerals.

In China alone there is an expectation that over the next 10 years, some 500 coal-fired power stations and 200 cities will be built to meet high urbanisation trends.

3. THE CONTRIBUTION OF MINING

So there does appear to be a bright light at the end of what has been a very dark tunnel. Accepting that mining sector performance and thus its contribution to socio-economic development and foreign exchange earnings will not be as spectacular in 2009 as it has been in some previous years, there is cause for optimism that with sustained recovery in global markets demand for South African mineral products will be recovered.

Industry performance in 2008, prior to the most dramatic recessionary effects being felt, was eminently acceptable.

Total mining sector income was R364-billion, a 20 percent increase over the 2007 aggregate. To dismantle the belief that occupies the minds of some mining sector critics about the destination of money earned by the mining industry, it is pertinent to point out that quite a bit more than the total amount that was accrued last year, was reinvested or spent in South Africa. In fact, the industry's total expenditure in 2008 amounted to R383-billion, R19-billion more than accumulated income.

Almost R145-billion was spent on the procurement of goods and services; R59-billion on salaries and wages; R64-billion was used for capital investment in the sector; R33-billion was paid in direct taxes to the Fiscus; R25-billion was paid as reward to the providers of capital (shareholders); R21-billion was absorbed by depreciation and impairment; and R9-billion was paid as interest on loans to mining by the financial sector. Only a small portion of the expenditure – in the form of capital equipment and some dividends was disbursed offshore.

The total value of South African mineral sales in 2008 amounted to just over R300-billion – an increase of 34 percent over the 2007 figure. The primary causes of the appreciable increases were a 386 percent rise in manganese ore sales to R17-billion; a 62 percent expansion in iron ore sales to R22-billion; a more than 16 percent hike in PGM sales to R91-billion; and a 64 percent rise in coal sales to a total in excess of R72-billion.

Although gold production in 2008 fell by more than 31 percent to 220 tons – caused substantially by the electricity crisis – the sector remained a significant contributor to the economy. Foreign currency earnings derived from gold amounted to just less than R49-billion and after platinum and coal, it was the third largest component of total primary mineral sales. These top three minerals accounted for more than 69 per cent of South Africa's mineral sales in 2009. The dramatic increases in the sale of iron ore and manganese ore elevated these two commodities to fourth and fifth positions respectively.

Funds derived from the export of primary minerals came to a total of slightly less than R220-billion – a 35 percent advance on the 2007 aggregate. The amount accrued from mineral exports represented more than 30 percent of South Africa's total merchandise exports. As in previous years, if secondary beneficiated products are added – such as catalytic converters, ferro-alloys and steel – total minerals complex sales reached an amount of R352-billion, about 50 percent of 2008's total merchandise exports

4. MINING INDUSTRY'S POSITION IN THE NATIONAL ECONOMY

The figures that I have just revealed, supplemented by some critically relevant additional information, are demonstrative of the pivotal position that the business of mining occupies on our country's national economy. A simple but cogent method to illustrate the reality of the industry's commanding stature is to envisage an economic profile of South Africa with no mining sector. What becomes apparent is that our country would lose:

- About 18 percent of GDP.
- Over 50 percent of merchandise exports.
- About 1 million jobs. (Directly and indirectly).
- About 18 percent of total investment.
- 35 percent of the market capitalisation of the Johannesburg Securities Exchange.
- Some 30 percent of capital inflows into the economy via the financial account of the balance of payments.
- More than 90 percent of the country's electricity generating capacity.
- About 30 per cent of the country's liquid fuel supply.
- The largest contribution by value to black economic empowerment. In this area, and this is relevant to the transformation of our society, one third of all empowerment deals stuck during the past eleven years have been in the mining sector. The total value of the deals amounts to more than R200-billion.
- Finally without its mining industry, South Africa would also lose 20 percent of direct corporate tax receipts – R33-billion in 2008.

Ladies and gentlemen, it is all too obvious that the wealth created by the business of mining, its potential to contribute to the alleviation of poverty and to provide decent work opportunities – primary objectives of our Government's policy formulation strategies – are exceptional.

It is indeed a precious gem in our country's sovereign crown and this quite likely is the underlying logic for the ANC Youth League's aspirations to nationalise it.

5. GLOBALLY COMPETITIVE AND TRANSFORMED INDUSTRY

More realistically, the assertive profile of mining in South Africa's industrial and commercial domain, is fundamentally relevant in a year that has been targeted for a review of the Mining Charter. The Charter, a product of tripartite collaboration and implemented in 2004, is the template by which mining industry transformation is measured.

Mining companies that are members of the Chamber of Mines have consistently made it clear that they are emphatically committed to transformation and through the Chamber they will be constructive participants in the Charter review process.

It is the Chamber's view that although they are two distinct processes, there is an indivisible attachment between the creation of meaningful texture for the Mining Charter review and what will be required of the industry to actively support – and help to achieve – the policy objectives defined in Government's recently released Medium Term Strategic Framework. It is the essence of this framework that is likely to give structure and substance to the proposed Vision 2025 for South Africa.

In recent months as the Chamber has embarked on a preparatory exercise for the Mining Charter review and the Medium Term Strategic Framework, attention has been intensely focused on transformation, sustainability - which encompasses all the imperatives that provide the industry with its social licence to operate – and the equally prominent demands that are attached to global competitiveness.

In consultation with the Director General in the Department of Mineral Resources, Advocate Sandile Nogxina, it has been agreed that for the purposes of imminent tripartite engagement, the Chamber will compile a comprehensive fact base on the global competitiveness of the South African industry. This has been done with the assistance of McKinsey and Company, a group of internationally active management consultants. In a parallel process, the South African Mining Development Association (SAMDA) has been asked by the DG to produce a fact base on transformation. Additional work on a sustainability fact base has been commissioned by the Chamber.

The work that has been done by the Chamber has presented the inescapable conclusion that competitiveness, transformation and sustainability have no independent existences. An industry that is not competitive in the global marketplace - no matter how zealous the commitment - will not have the essential capacity to achieve transformation benchmarks. Neither will it be able to give sufficient impetus to the performance drivers that advance internationally prescribed sustainability principles.

6. THE GLOBAL ARENA

The cardinal challenge that must be dealt with by mining sector tripartite stakeholders going forward is to reach agreement on what constitutes the best possible enabling environment to ensure that the industry is able, not only to maintain its contribution to economic growth and wealth creation, but to expand it. It is essential that the mechanisms needed to reach this goal have the buy-in and support of all parties. An additional priority for elevated mining industry performance is that when agreement is struck on how this is to be accomplished, stakeholders must accept accountability for the realisation of objectives in their individual areas of responsibility.

The unfortunate truth that currently confronts us is that in spite of its generous resource endowment, there has been little or no mining industry growth between 2001 and 2008. What this denotes - and this is not an original observation as it was expressed quite vigorously by both of my immediate predecessors in their Annual Presidential Reviews - is that South Africa extracted minimal benefit from the recently ended commodities boom.

In the seven years that the boom endured the world's top twenty mining countries, our own excluded, had a compound annual growth of mining GDP in the region of five percent in real US dollar terms. Over the same period, South Africa's mining sector declined by more than one percent per annum. This missed opportunity for the mining sector has lowered overall economic growth, reduced exports and retarded socio-economic development.

An interesting calculation reveals that had the South African mining sector grown at the same rate as its foreign counterparts over the same time span, an additional R50-billion would have been added to real GDP and as many as 40 000 direct industry jobs could have been created.

Honourable Minister, ladies and gentlemen, it is not my intention this morning to point accusatory fingers and seek to identify scapegoats to take responsibility for the less than impressive comparative benefits that our industry was able to extract from the commodities boom. It never serves any constructive purpose to apportion blame when it is incumbent on all stakeholders to find productive solutions.

Furthermore, the mining industry as represented by the Chamber, does not itself lay claim to unmitigated innocence. It is acknowledged that the way things were done in the past is not necessarily the way they should be done either in the present or in the future. With acceptance of this axiom and in the spirit of collaborative engagement so effectively articulated this morning by Minister Shabangu, the Chamber and its members are scrupulously committed to the creation of an acceptably transformed, globally competitive and sustainable mining industry.

It is only by arriving at this destination that the industry will be optimally positioned to offer meaningful assistance to Government in the realisation of policy imperatives like wealth creation, the alleviation of poverty and the creation of more employment opportunities for our country's people.

7. SOCIAL LICENCE TO OPERATE

All of the people who are employed in the business of mining in South Africa continue to be recognised as the industry's most valuable assets. In co-operation with representatives of organised labour, most notably the National Union of Mineworkers, there are ongoing efforts to improve living and working conditions in a manner that complies with sustainable development principles and the provisions that govern the industry's social licence to operate.

Earlier this year, wage negotiations with unions that the Chamber conducted on behalf of its coal and gold mining members were successfully concluded. The NUM, the United Association of South Africa and Solidarity are commended for the positive approaches that they adopted in making sure that the process was brought to conclusion without any call for serious industrial disruption.

In addition to environmental protection, other sustainability and social licence issues that remain at the top end of the Chamber's agenda are the health and safety of every person who finds employment in the multi-faceted business of mining.

The mining industry provides exceptional health care services to its employees and to the communities in which it operates. As in the rest of South Africa, HIV-AIDS remains a major challenge particularly as it is aggravating a serious tuberculosis epidemic. Without diminishing the gravity of the HIV-AIDS problem, there is no doubt that TB is the most prevalent occupational disease in the mining industry. According to figures released by the Department of Mineral Resources, there were more than 4 600 cases of TB reported in the mining sector in 2008. Engagements between the Chamber and the National Department of Health have led to the establishment of a TB task team and it is believed that this collaborative initiative will create better structures for the management and treatment of TB.

In addition to TB, the industry continues in its efforts to bring the incidence of silicosis under control. The year 2013 has been earmarked by the industry for the elimination of silicosis but latest information on the disease suggests that the target is unlikely to be met. At least 1 500 new cases of silicosis are being reported every year and there is clearly a need to further reduce underground dust levels, particularly in gold mines.

The ultimate goal of the industry's safety strategy, developed in co-operation with Government and labour, is to have zero fatalities and zero injuries. To meet agreed milestones, safety performance must improve by 20 percent per annum to reach a 2013 fatality target of 0.03 per million hours worked. Comparing 2007 with 2008, the industry's fatality rate improved from 0.21 to 0.15 which reflects a decrease in the number of workplace deaths from 220 to 171. Despite the improvement, this figure remains unacceptably high and what it means is that the original 20 percent per annum reduction to achieve the 2013 target has now moved upwards to 27 percent. So far this year 145 people have lost their lives in surface and underground incidents. At the same time in 2008 the number was 154. This represents a reduction of slightly less than six percent.

All of the Chamber's member mines have elevated workplace safety to the top of their strategic and operational agendas. Recognition has been given to the necessity for mining operations to learn from each other and measures have been adopted to actively promote a safety and health culture among all employees.

8. CONCLUDING REMARKS

Honourable Minister, ladies and gentlemen, in bringing to conclusion my Annual Review at the end of a year in which the Chamber has celebrated its 120th anniversary, I am compelled to record my appreciation of the fact that I have been given the opportunity to serve as President during a period in which the industry has faced some daunting challenges but has also been presented with many stimulating moments.

It has already been pointed out by the Chief Executive that he has managed to persuade me to make myself available for election for another Presidential term in 2010. I had been under the firm impression that today's meeting would signal the end of my occupation of the Presidential chair but Mr Diliza, in addition to all his other admirable qualities, is a very persuasive man. He correctly points out that the Chamber is currently confronted with a large amount of unfinished business and that my continued presence as President will bring continuity to the functions that will have to be performed by the office-bearers. I gave this matter my careful consideration and decided, in the circumstances, that I would agree to stay on for one more year. If I am re-elected, I shall do my utmost to ensure that I continue to perform the Chamber's Presidential duties to the best of my ability.

To David Noko and Robbie Lazare, the two exceptional individuals who have been Vice Presidents during the past 12 months, my sincere thanks for your consistent support and wise counsel. It is my understanding that unlike Mr Noko, Mr Lazare is not making himself available for re-election as a Chamber office-bearer and I must say that his frank, honest and sometimes even a little abrasive way of getting things done will be greatly missed.

Although frequently challenging, it has always been gratifying to chair the monthly meetings of the Executive Council. The eloquence of Council members in the expression of opinions so critical to the management and direction of the mining industry consistently elevates the level of debate to a standard that I am sure is not often surpassed in any South African business forum. My thanks to all my Council colleagues for always keeping me on my toes and making sure that I was never allowed to deviate from what has constantly been a very sharp - but most enjoyable - learning curve.

As we have already heard from him, today's 119th Annual General Meeting of the Chamber will be the last that Zoli Diliza will be attending as Chief Executive. In becoming Chief Executive of the Chamber, Zoli boldly wrote his name into the chronicles of mining industry narrative as he was the first black person to be appointed to the position. During the period that he has presided over the Chamber, Zoli has been actively involved in many events that have shaped industry history in recent time. His appointment 11 years ago was a genuine baptism of fire because he walked headlong into an unprecedented gold crisis which saw the price of the commodity plummet following decisions by some of the world's biggest Central Banks to dispose of their gold holdings.

He was also active in stakeholder negotiations on the Mineral and Petroleum Resources Development Act, the principal legislative instrument that currently governs mining in our country. Additionally, Zoli is the only top-level mining sector executive who remains in the service of the industry and who was a leading participant in the process that produced the Mining Charter. Minister Shabangu is the fifth person to have Cabinet responsibility for the industry since Zoli's 1998 appointment and it is a credit to his professional capability and his integrity that he has enjoyed cordial and productive relationships with all of them.

From an internal perspective, one of Zoli's most outstanding achievements has been the demographic transformation of the Chamber. He has accomplished this task without sacrificing - but rather improving - the essential intellectual chemistry that the organisation requires to carry out its responsibilities as a mining industry lobbying and advocacy agency. I am aware that when he leaves the Chamber at the end of June next year, Zoli will be pursuing other business interests in a sphere in which he has already established an influential presence.

Zoli, on behalf of all members of the Chamber I salute you, I thank you for the major contribution that you have made and I wish you all the best in the pursuit of your upcoming endeavours.

To all members of the Chamber's staff who have worked so meticulously during 2009 to help me and my colleagues on the Executive Council make informed decisions and formulate the correct lobbying and advocacy mandates, my sincere thanks and appreciation. I hope that all of you and your families will find enjoyment and peace as we approach the end of the year and the advent of the festive season.

Honourable Minister Shabangu it has been a great privilege having you here with us this morning and to you and all other members of a most distinguished audience, thank you for your kind attention.

28 October 2009.